



Avalon Minerals Ltd AVI Swedish Copper & Iron Ore Developer

Capital Structure

| | |
|------------|--------------------|
| Shares | 132.3 m. |
| Options | 1.9 m. @ Av 35 cts |
| Cash (est) | \$4.0 m. |
| Price | 17 cts |
| Market Cap | \$22 m. |

Major Shareholders

| | |
|----------------------|-------|
| Tan Sri Abu Mohammed | 16.5% |
| Mc Sweeney | 11.9% |
| Galena | 9.4% |
| Citi Corp | 5.0% |

Directors

| | |
|----------------------|--------------------------|
| David McSweeney | Exec Chairman |
| Stephen Stone | Non-Exec |
| Gary Steinepreis | Non-Exec |
| Tan Sri Abu Mohammed | Non-Exec |
| Des Kelly | Company Secretary |

Opinion*

Sweden is a mining friendly country with excellent access to skills and a favourable fiscal regime, consisting of a 0.2% royalty and 26.3% corporate tax rate. Recent work indicates potential to produce both iron and copper concentrates from ore on its permits.

Regional geophysical data has enabled Avalon to substantially expand the scope of its operations through exploration for both copper and magnetite ore.

On the basis of fair value being a modest, 1.5% multiple of the insitu value of its iron ore target & copper Resource, Avalon appears to be trading with a market capitalisation of just 30% of fair value.

Peter Strachan.

*No recommendation is offered for commissioned research.

Investment Drivers

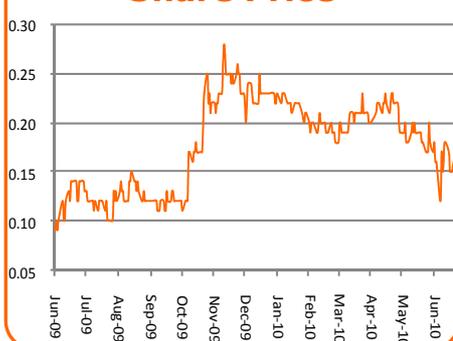
- Avalon has a target value of 56 cents per share, based on a conservative multiple of the insitu value of its copper Resources and target iron mineralisation.
- Avalon's Viscara copper project has Resources containing over 520 Kt of copper plus gold, while exploration permits have significant copper and iron ore exploration appeal.
- A low copper price in 1997, forced closure of the Viscaria mine, but at a copper price of over US\$2.50/lb, the project should produce strong operating cash flows.
- Copper and magnetite deposits shows substantial continuation along strike and at depth, adjacent to developed mine access. High grade zones have been identified, averaging around 3% copper within a resource, grading 1.3% copper.
- The project is well located with respect to low cost power and transport infrastructure, near the city of Kiruna in Sweden's north.
- Avalon is now addressing a potential for production of high quality magnetite concentrate for sale to European smelters.
- The company has established a high calibre management team with experience in the region, who will guide a project feasibility study during 2010.

Fig 1. Avalon's Swedish Project Locations



Source: Avalon Minerals

Share Price



Sweden's cost & fiscal environment is more favourable than Australia's

Introduction

Avalon listed in early 2007 with a portfolio of Western Australian exploration assets. In March 2008, the company negotiated to purchase the Viscaria copper mine and the Adak exploration project from Phelps Dodge for a total of US\$420,000. The company continues compiling historical exploration and mining data from each project. With the aid of high resolution geophysical survey data over its focus permits, Avalon has acquired additional permits surrounding its areas of interest with the aim of adding to known occurrences of both copper and iron ore.

Sweden is a mining-friendly country whose capital and operating costs are typically lower than in Western Australia and where government takes a 0.2% royalty as well as corporate taxation at a rate of 26.3%. In the light of Australia's proposed resource super profit taxation (RSPT), which would lift overall government take to over 50% of pre-tax income, Sweden looks even better than it did pre May 2010.

Projects

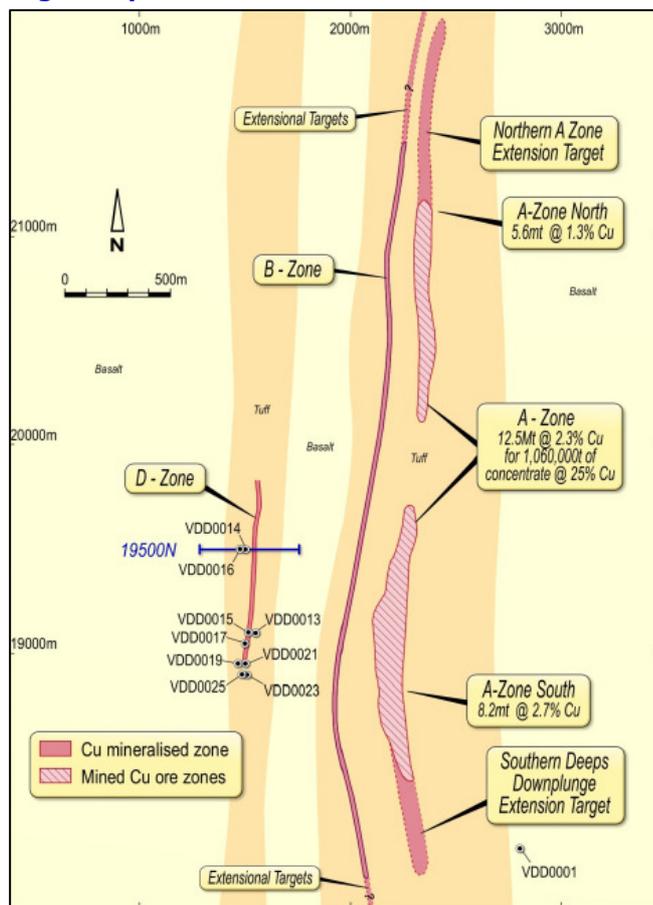
VISCARIA 100%

Copper & iron ore focus in Sweden

The Viscaria copper mine is located in the north of Sweden, about 4 kilometres northwest of one of Europe's largest underground iron ore mines in the town of Kiruna. This regional centre of 25,000 people has a mining culture, good transport and services infrastructure, along with low cost power and a skilled workforce. Outokumpu operated a ~1 million tonne pa underground mine at Viscaria for 15 years up until 1997, when a low copper price forced its closure. Total ore mined amounted to 12.5 million tonnes grading 2.3% copper and 0.3 g/t gold, to produce a concentrate grading 25% Cu, which was sold via the nearby rail line to local and other European copper smelters.

Mineralisation occurs within a north-south trending skarn sequence, sandwiched between basalt layers, which sit in near vertical sequence, dipping steeply to the east. Known copper deposits extend along a strike length of about 5 kilometres of this volcanogenic sequence, but geophysical mapping and regional sampling indicates that the prospective sequence extends at least 20 kilometres along strike.

Fig 2. Map of Main Mineralised Zones at Viscaria



Source: Avalon Minerals

Re-establishing 1990's copper mine

Mineralisation occurs in three main lines of lode. Most mining has taken place along the A Zone, which is divided into northern and southern sections, the parallel B Zone to the west of the A Zone plus the D Zone, located further west.

Walk-up mining targets . . . open pit potential plus extending underground workings

JORC compliant Inferred Resources are tabulated at right.

| Inferred Mineral Resources | | |
|----------------------------|-------------|------------|
| | mt | % Cu |
| 'A' Zone South | 8.2 | 2.7 |
| 'A' Zone North | 5.6 | 1.3 |
| 'B' Zone | 24.3 | 0.8 |
| 'D' Zone | 2.5 | 1.6 |
| Total | 40.6 | 1.3 |

527,000 tonnes of contained copper in 40 mt of Resources

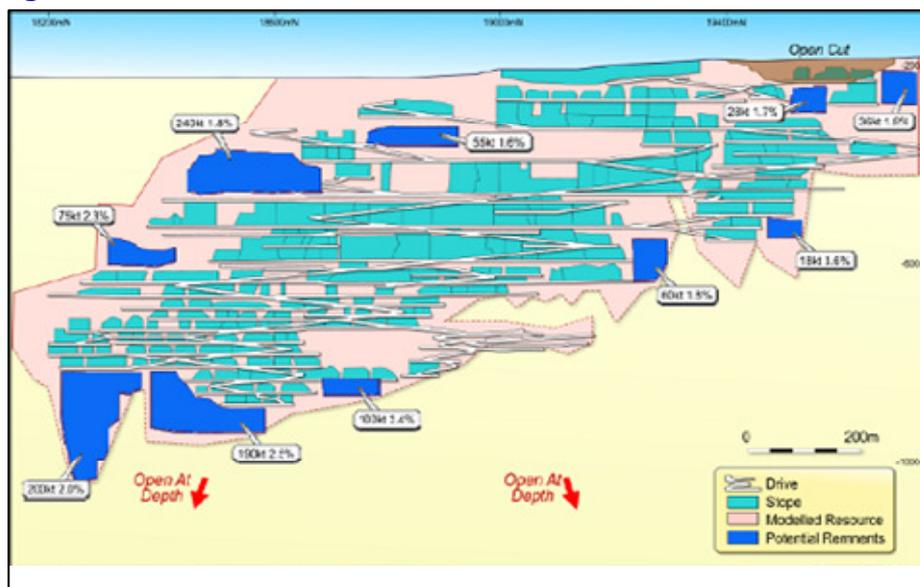
Total resources of 40.6 mt of ore grading 1.3% Cu contain 527,800 tonnes of copper.

'A' & 'B' ZONES COPPER

Scout drilling by the previous owner, outside of the Inferred Resource to the north of the A Zone, recorded shallow intersections at commercial widths grading 2% and 5% copper, which the company has begun to follow up, so as to outline mineralisation suitable for open pit extraction.

Fig 3.A Zone South

Open pit drill targets



Source: Avalon Minerals

The company has inherited a comprehensive database of exploration and mining information which points to substantial tonnages of high grade remnant mineralisation (Fig 3.), as well as extensions along strike and at depth. The long section above illustrates some of the many drill intersections outside of stoped ore zones. Drilling results in unmined areas include:

- **2.7 metres @ 4.6% Cu** from 200 metres below workings.
- **6.7 metres @ 4.4% Cu** and
- **4.6 metres @ 7.2% Cu** from within the existing drive network and
- Shallow intercepts including **10.8 metres @ 8.9% Cu**, which point to potential for low cost open pit operations.

Multiple working areas to rehabilitate from existing access

Drilling by Avalon confirms potential for shallow, low grade copper ore which could be commercial under open pit mining conditions. Further work is planned to determine the extent of mineralisation and to provide samples for metallurgical studies, leading to process flow sheet design for the copper-rich lodes in the A & B Zones. These zones are chalcopyrite-rich and display only minor amounts of magnetite alteration. This metallurgical test work represents the final part of a Pre-Feasibility Study of the Viscaria Copper Project which is scheduled to be completed in the September Quarter 2010 and is expected to form the basis of a subsequent Bankable Feasibility Study into the re-commencement of copper mining operations.

'D' ZONE COPPER - IRON ORE

Avalon has drilled the 'D' Zone on the western side of the mineralised sequence, outlining overlapping, high grade magnetite and copper bearing zones in a magnetite-carbonate skarn iron deposit, as illustrated by the intersects below and the accompanying cross section (Fig 4.). The 'D' Zone is presently defined over a strike length of 1,100 metres to a depth of approximately 150 metres below surface. It remains open along strike to the south and at depth.

'D' Zone drill results:

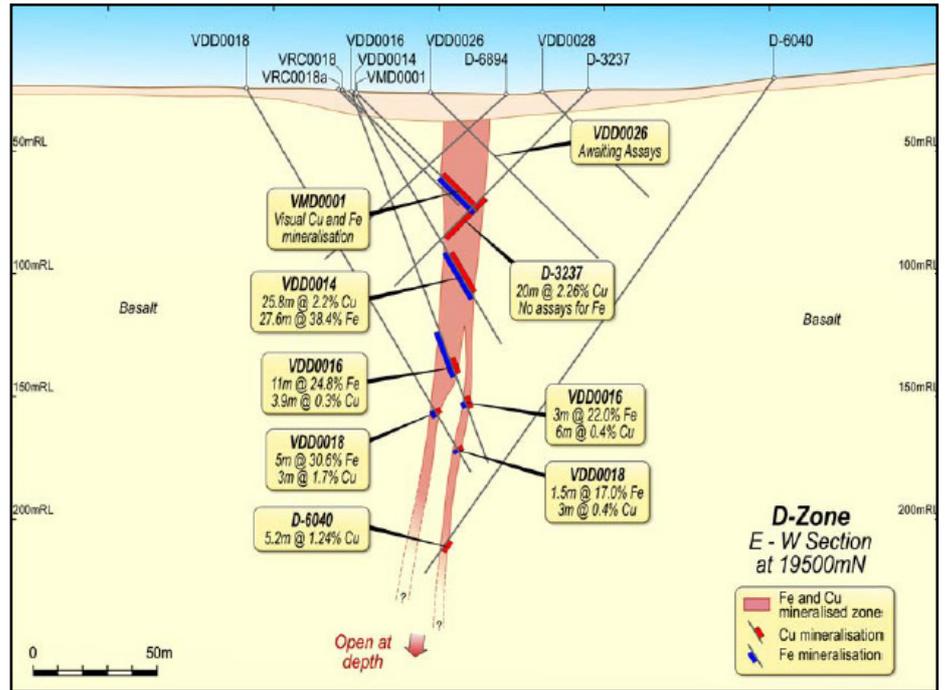
Fig 4.D Zone Section

IRON ORE

- 27 metres @ 34.0% Fe from 85 metres in VDD0024
- 24 metres @ 30.4% Fe from 37 metres in VDD0033
- 32 metres @ 31.3% Fe from 40 metres in VDD0039
- 22 metres @ 27.9% Fe from 111 metres in VDD0040

COPPER

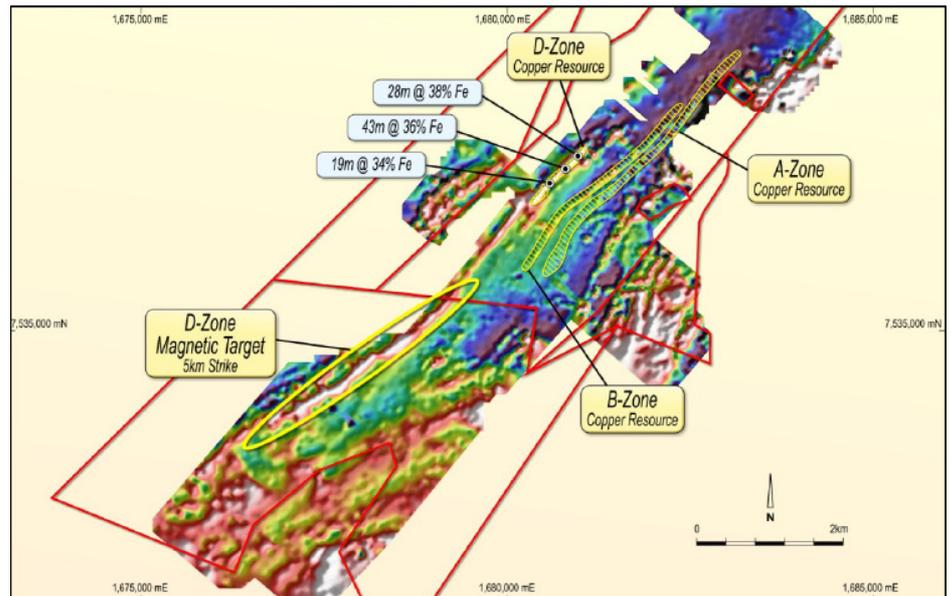
- 6.8 metres @ 1.58% Cu from 66 metres in VDD0013
- 27.6 metres @ 2.24% Cu from 68 metres in VDD0014
- 2.9 metres @ 1.74% Cu from 151 metres in VDD0018
- 12.3 metres @ 2.08% Cu from 80.6 metres in VDD0022
- 14.4 metres @ 2.59% Cu from 99.6 metres in VDD0024
- 12.1 metres @ 1.45% Cu from 57 metres in VDD0035
- 10.3 metres @ 1.53% Cu from 119.5 metres in VDD0040



Source: Avalon Minerals

Geophysical survey data over Avalon’s permits indicates potential for a 5 kilometre southerly extension to the ‘D’ Zone mineralisation, as shown in Fig 5.

Fig 5.D Zone Section



Source: Avalon Minerals

Project Development

Avalon has been able to access Australian technical skills with Swedish mining and exploration experience. The company is now studying multiple development options at Viscara, including:-

- toll processing of magnetite ore at the adjacent 28 million tonne pa, LKAB mine and concentrator/pellet plant,
- production of a copper concentrate alongside sale or toll processing of magnetite tailings, or
- owner processing of all mineralisation to produce both a high grade magnetite concentrate and a copper concentrate.

Magnetite in this region is typically coarse grained and low in deleterious elements such as phosphorous and aluminium but rich in desirable elements such as magnesium. Unlike many Australian iron ore projects, Viscara has excellent access to rail and port facilities. The project is 170 kilometres from an ice free Norwegian port at Narvic, which has capacity to handle an additional 18 million tonnes per annum of magnetite concentrate or pellets.

30 - 50 mt iron ore target

Mine planning & permitting underway

Based on measured widths so far along the 'D' zone, a known strike of 1.1 kilometres as well as a mapped target of an additional 5 kilometres of mineralisation, this project has an exploration target of 30 to 50 million tonnes of magnetite ore, which would produce 15 to 20 million tonnes of saleable product, with an insitu value of over A\$2.3 billion at current iron ore/pellet prices.

Processing plant being designed & costed

Early estimates indicate potential for 10 million tonnes of open pit ore grading 1.0 to 1.3% Cu. In parallel, immediate underground ore targets will be established, representing early mining sites. Open pit mining could be undertaken while the existing underground workings are dewatered and services are re-established to working sites, selected for early mining. Understanding of regulations and approvals process required to begin mining has been handled by the company's local management and consultants. The Swedish government has been supportive of Avalon's plans and the regulatory environment appears to be much simpler to navigate than in Australia. Water in the mine appears to be neutral, so disposing of it should not present a problem.

Marketing studies underway

Avalon is also working with consultants in Sweden to design a 500,000 tpa processing plant and has identified second-hand equipment which could be acquired, thus reducing both the timeline to production and capital costs associated with the milling and concentrating plant.

In parallel, Avalon is in discussions with smelters in Sweden to determine pricing terms and conditions for sale of Viscaria concentrate, containing 10-15,000 tpa of copper. Boliden's Ronnskar smelter is located 300 kilometres south of Viscaria, connected by rail.

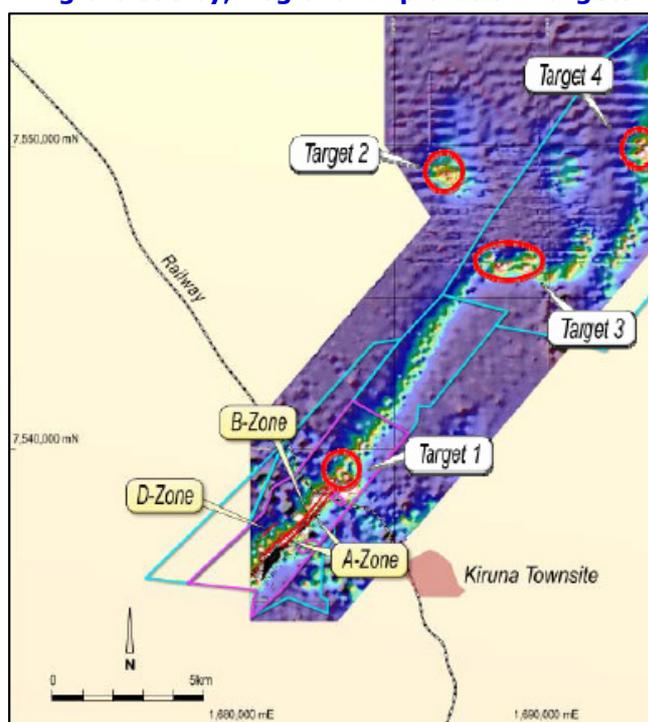
Prime geophysical exploration targets crying out for a drill hole!

A definitive feasibility study is targeted for completion by Q3 2011, which would lead to mining by late 2011 under the most favourable scenario, but by 2013 if a full processing plant is required. The company's plans have been assisted by access to low cost hydro-power at just A\$0.05/kwh and an existing rail line, linking the Kiruna iron ore mine to ports and a copper smelter. Skilled miners can be found in the town of Kiruna, just 4 kilometres from the deposit and labour rates are low, by comparison with those demanded in Australia.

REGIONAL EXPLORATION

Based on geophysical survey data, Avalon lodged four applications over 463 km² of prospective terrain to the northeast of its Viscaria permits in May 2010. This area, which extends up into more mountainous and snow covered terrain, is covered by wide spaced aeromagnetic data. Avalon plans to acquire more detailed aeromagnetic data and to conduct sampling and mapping on the ground. Figure 6 shows four prospects located closer to Viscaria that will be the basis for early exploration during the northern summer.

Fig 6. Close by, Regional Exploration Targets



Adak exploration project...
JV funding being sought

Adak Project 100%

The Adak project is located within an extensive VHMS mining field which has so far produced 29 mines and total production of 99 million tonnes of base metal ores. The company plans to joint venture this project out to a local Swedish company, so that it can retain focus on re-development at Viscaria, but in the meantime, all historic mining and exploration data is being digitised and loaded onto modern software to assist with target identification.

AVI looks cheap on the basis of its
market cap as percent of insitu value

Valuation

Exploration and project development companies are priced in the market with reference to the insitu value (ISV) of their defined Resources. Higher ratings and thus values are afforded to companies that are well funded and whose Resource is either well defined with calculated Reserves and/or have higher grades than average or offer the likelihood of lower mining and processing costs. Highly rated explorers and developers can attract a market capitalisation of up to and over 10% of the ISV of their Resources, but it is more common for exploration companies to be valued at between 1% and 6% of the ISV of their Resources, with early stage exploration projects usually found at the lower end of the scale.

Avalon has so far outlined 527,800 tonnes of copper, contained in 40.6 million tonnes of ore at Viscara. The D Zone magnetite mineralisation presents a target for 10 million tonnes of magnetite iron ore, while its southern extension could yield a further 20 million tonnes. Strachan Corporate assumes that at least 10 million tonnes of magnetite ore will be outlined and values it with an insitu value of US\$61 per tonne, based on 2.5 tonnes of ore to produce a tonne of concentrate grading 68% Fe and a price of US\$1.95 per percent of iron content with an added 15% premium for the high grade, coarse grained product typical of this part of Sweden.

Applying a modest 1.5% of ISV and a copper price of US\$3/lb produces a target value of \$61 million for Avalon's copper Resources while the initial magnetite target has a value of \$14 million when applying a 2% multiple to ISV.

Applying this logic, Avalon would be fairly priced today with a market capitalisation of \$75 million or 56 cents per share. Strachan Corporate believes that Avalon has potential to be significantly re-rated

Target price of 56 cps as planning progresses

as it moves closer to completing a feasibility study, obtains access to funding and ultimately moves into production. Exploration and evaluation drilling currently underway, has the potential to significantly improve confidence in Avalon's resource position. Demonstration of capital and operating costs at Viscaria, via its ongoing mining and engineering feasibility study should enhance Avalon's market rating. Focus on Australia's proposed RSPT could attract attention of investors, keen to avoid Australian resource projects.

Risks

Avalon faces funding risks, associated with the fragile state of equity markets and ongoing economic uncertainty. Once funding is established, the company can move on to reduce risks associated with resource security, engineering and permitting issues as well as other technical and marketing considerations. Avalon has an opportunity to establish a long life, multi-commodity moderate cost operation with an ability to survive through market cycles.

| Inferred Mineral Resources | | | |
|----------------------------|--------|------|--|
| | mt | % Cu | |
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| 'A' Zone North | 5.6 | 1.3 | |
| 'B' Zone | 24.3 | 0.8 | |
| 'D' Zone | 2.5 | 1.6 | |
| | 40.6 | 1.3 | |
| | mt ore | % Fe | |
| 'D' Zone Magnetite | 10 | 34% | |

Source: Company Reports

| Valuation | A\$/t | % ISV | Value \$m. |
|-----------|----------|-------|------------|
| Copper | \$ 6,400 | 1.5% | 51 |
| | \$ 7,691 | 1.5% | 61 |
| Magnetite | \$ 177 | 2.0% | 14 |

Source: Strachan Corporate Pty Ltd

Management

Executive Chairman

David McSweeney

David is a Lawyer with over 20 years of experience running and developing gold and iron ore mines. He has been closely involved in corporate funding and joint venture negotiations and has overseen all aspects of project development from discovery to production.

Non-Exec Director

Tan Sri Abu Sahid Mohamed

Tan Sri Abu Sahid is Chairman of successful Malaysian conglomerate, the Maju Group of Companies. He has over 30 years of experience in the Malaysian construction and steel industries and has diversified into Property Development & Management, Engineering, Services as well as Highway Concessions.

Non-Exec Director

Stephen Stone

Stephen is a geologist with 28 years of experience in exploration and corporate management.

Non-Exec Director

Gary Steinepreis

Gary is a Chartered Accountant with deep experience in corporate development and project funding. Gary is also a founding director of Ascent Capital Pty Ltd, a company formed to pursue the reconstruction and recapitalisation of existing listed companies, assist in the establishment of new businesses and support the listing of new companies.

General Manager

Andrew Munckton

Andrew is a geologist and was most recently General Manager for iron ore miner, Gindalbie Metals. He has wide experience in the management of gold and iron ore exploration and operations.

Exploration Manager

Louise Lindskog

Louise is a geologist with wide experience in gold and base metals exploration. She completed an Honours Degree working on IOCG deposits in the north of Sweden in the region of Viscara.

Viscara Project Manager

Grant Brook

Grant is a Mining Engineer with a long history of successfully developing gold and base metals projects.

Company Secretary

Des Kelly

Disclaimer

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